

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER



Office of Tax and Revenue

CIGARETTE FLOOR TAX RETURN

Frequently Asked Questions (FAQs)

Consumer

What is the new cigarette tax rate and when did it become effective?

Effective January 1, 2003, the excise tax on cigarettes was raised pursuant to the "Fiscal Year 2003 Budget Support Amendment Emergency Act of 2002." This law amends section 47-2402(a) raising cigarette excise tax from \$0.0325 per cigarette to \$0.05 on the sale or possession of all cigarettes in the District of Columbia. Therefore, a pack of twenty (20) cigarettes will be taxed at the rate of \$1.00 per pack. A pack of twenty-five (25) cigarettes will be taxed at the new rate of \$1.25 per pack.

The excise tax is paid by the cigarette wholesalers and passed on to the consumer. This excise tax is in addition to the sales tax of 5.75% on all sales to consumers.

What is the new minimum price that can be charged for cigarettes?

The minimum price is the manufacturers base price of a pack of cigarettes plus the mandatory mark-up of 2 percent for wholesalers and 8 percent for retailers.

The new minimum price will vary depending upon the manufacturer's base price for a pack of cigarettes. The cigarette wholesaler will initially pay for the new excise tax. Those costs will be passed on to the cigarette consumer. For cigarette packages that were stamped prior to the effective date, the cigarette wholesaler in possession of the cigarettes on the effective date will be responsible to pay the increase in the tax rate.

Is there an increase in the tax on other tobacco products, other than cigarettes?

No. The new law only increased the tax on cigarettes. No excise tax is applicable to other tobacco products.

Retailer / Wholesaler

What is a floor tax?

A floor tax is a tax on cigarettes previously taxed at the old rate of \$0.65 per pack that have not been sold to the ultimate consumer. The floor tax is \$0.35 for a pack of 20 cigarettes and \$0.4375 for a pack of 25 cigarettes.

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Who is required to pay the floor tax?

Anyone who possess cigarettes for commercial distribution in D.C. is required to pay the floor tax. This includes all wholesalers, retailers and vending machine operators.

Is the wholesaler/retailer mandatory minimum mark-up calculated before or after the tax increase is added to the minimum price of cigarettes?

The cigarette wholesaler must calculate the mark-up after the tax increase has been applied in order to establish the minimum price for which the cigarette product can be sold.

When is the floor tax return due?

The Cigarette Floor Tax return must be submitted to the Office of Tax and Revenue no later than February 21, 2003. The amount of tax due is also required. Make your payment by check or money order payable to the *D.C. Treasurer*. Mail your Cigarette Floor Tax return and payment to the Office of Tax and Revenue, P.O. Box 556, Washington, DC 20004.

What will happen if the floor tax return has not been filed and the tax amount due has not been paid by the due date of February 21, 2003?

Failure to file a floor tax return and failure to pay the floor tax due by February 21, 2003 will result in the imposition of a tax assessment, penalties and interest and may result in criminal prosecution. In addition, the cigarette license issued to you may be subject to suspension or revocation for violation of chapter 24. See D.C. Code, 2001 Ed. §§47-2404(f) & 47-2422(a).

Is a cigarette inventory required?

Yes. Each cigarette wholesaler, retailer and vending machine operator is required to perform a cigarette inventory as of February 1, 2003, at 12:01 a.m. The inventory must be initiated and completed on February 1, 2003, before any further sales can be conducted. The Office of Tax and Revenue will be performing random audits and spot checks to ensure compliance with these requirements.

How is an inventory performed?

When performing an inventory, special care should be given to determining the number of cigarettes in the pack (20 or 25) and the number of packs to a carton or case, which may be packed in different denominations. **Retailers, wholesalers and vending machine operators must** maintain a signed copy of their floor tax return and inventory worksheet at each business location.

All wholesalers, retailers and vending machine operators of District of Columbia cigarettes are required to provide an inventory of all cigarettes in stock as of February 1, 2003, at 12:01 a.m. Each cigarette licensee will be sent a floor tax return, an inventory worksheet and instruction. If a cigarette licensee has not received a floor tax return, an inventory worksheet and instruction by Saturday, January 25, 2003, they should contact the Office of Tax and Revenue at (202) 442-6618. The floor tax return, inventory worksheet, and instructions will be available on the Internet at www.cfo.dc.gov under "Taxpayer Services."

Is each subsidiary required to file a separate floor tax return?

A corporate filer may elect to file a consolidated return on behalf of its subsidiary. If a

consolidated return is filed and the subsidiary is subsequently assessed tax deficiencies, the corporate filer may be held liable for those deficiencies. The corporate filer must submit and maintain supporting documentation and attach any worksheet, which summarizes the inventory of each subsidiary.

Each subsidiary must maintain a copy of its inventory and the return submitted to the corporate filer at its place of business.

Is a vending machine operator required to perform a cigarette inventory on every vending machine?

Yes. Anyone who possess cigarettes for commercial distribution in D.C. is required to pay the floor tax. This includes all retailers, wholesalers and vending machine operators. An alternate method is available to vending machine operators whereby a vending machine licensee may elect to pay a flat fee of \$190.00 for each machine located in the District of Columbia.

Cigarette Wholesalers

How does a cigarette wholesaler account for cigarettes, which are non-saleable?

The cigarette wholesaler is required to establish by appropriate documentation that non-saleable cigarettes have been returned to the manufacturer prior to January 31, 2003. No inventory of non-saleable cigarettes shall be permitted on the cigarette wholesaler's premises as of January 31, 2003. All non-saleable cigarettes bearing a District of Columbia excise tax stamp must be returned to the cigarette manufacturer on or before January 31, 2003.

How does a cigarette wholesaler account for cigarettes in transit?

Cigarettes in transit, which have not been delivered to the purchaser and the delivery of which is evidenced by an invoice or bill of sale, do not need to be included in the inventory. Without the required supporting documentation, a cigarette wholesaler is required to pay the floor tax on all claimed "in transit" cigarettes on February 1, 2003.

Will a cigarette wholesaler still be able to buy the same number of excise tax stamps every month?

Due to a sizeable increase in the cigarette excise tax, wholesalers who purchase their stamps on credit will be required to increase the amount of their security bond in order to purchase the same number of stamps on a credit plan. Additional stamps may, however, be purchased by cash payment.

Who should I contact if I have more questions or need further assistance with the cigarette floor tax return?

If you have more questions or need further assistance regarding the cigarette excise tax increase requirements, please call the Office of Tax and Revenue at (202) 442-6618.

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